AB 11 (Jr1)
LRB-1426/1

STATE OF WISCONSIN

APPENDIX TO JANUARY 2011 SPECIAL SESSION SENATE BILL 11 AND JANUARY 2011 SPECIAL SESSION ASSEMBLY BILL 11

REPORT OF JOINT SURVEY COMMITTEE ON RETIREMENT SYSTEMS

(Introduced respectively by the committees on Senate Organization and Assembly Organization by request of Governor Scott Walker.)

An Act relating to: state finances, collective bargaining for public employees, compensation and fringe benefits of public employees, the state civil service system, the Medical Assistance program, sale of certain facilities, granting bonding authority, and making an appropriation.

PROVISIONS OF JANUARY 2011 SPECIAL SESSION SENATE BILL 11 AND JANUARY 2011 SPECIAL SESSION ASSEMBLY BILL 11 THAT ARE THE SUBJECT OF THIS REPORT

Section 13.50 (6) (a) requires that the Joint Survey Committee on Retirement Systems prepare a report on those provisions of January 2011 Special Session Senate Bill 11 and January 2011 Special Session Assembly Bill 11 (the Bills), and any amendments to the Bills, that modify the system for, or make any provision for, the retirement of or payment of pensions to public officers or employees. The provisions of these Bills that are the subject of this report are the following:

1. Modifications to the Employee and Employer Retirement Contributions to the Wisconsin Retirement System (WRS). [SECTIONS 81 through 87, 148, 149, and 152.]
2. Reduction in the Retirement Formula Multiplier for Elected Officials and Executive Employee Participants. [SECTION 99.]
3. Elimination of Limited-Term Employee (LTE) Participation in the WRS. [SECTIONS 73, 88, and 340.]

These provisions are described below.

1. Modifications to the Employee and Employer Retirement Contributions to the WRS

a. Description

This provision of the Bills modifies the current employee required retirement contributions to the WRS to require that an employee pay one-half of the actuarially required contributions.

Under current law, the Employee Trust Funds (ETF) Board, in consultation with actuaries, annually determines the total actuarial contribution required to fund the WRS. This total contribution is the sum of three components: the employee rate; the employer rate; and the benefit adjustment contribution (BAC). Employer contributions to the WRS vary depending upon the type of position held by the employee. Employee contributions are currently required as follows:

1. For general employees, 5 % of earnings;

2. For elected officials and executive employees, 5.5% of earnings;

3. For protective occupations covered by Social Security, 6% of earnings; and

4. For protective occupations not covered by Social Security, 8% of earnings.

Employer contributions (currently 5.1%) are generally paid by the employer, except that any contribution increase after 1989 is required to be distributed between the employer and the employee, with one-half of the increase paid by the employer and the other half of the increase added to the BAC portion of the total contribution. The BAC was created to fund WRS retirement improvements established under 1983 Wisconsin Act 141. The employee is responsible for paying BAC contributions unless the employer agrees to cover the cost (generally through collective bargaining). Currently, state employers are responsible for 1.3% of the BAC and general employees, .2%. A BAC is not necessary for the protective or elected official and executive categories.

While current law requires an employer to pay the full employer contribution, it also provides that an employer may pay all or part of the employee required contributions. This is generally derived through bargaining or the compensation plan. At this time, most state employers have agreed to pay the employee contribution (up to 5%) and 1.3% of the BAC for general employees. Protective occupations pay the portion of the employee contribution that exceeds 5%.

The Bills eliminate the BAC as a separate contribution, instead incorporating the BAC costs into the total actuarially defined contribution. [SECTIONS 86 and 87.] The Bills require that the contribution rate for general employees and elected officials and executive employees must equal one-half of all actuarially required contributions, as approved by the ETF Board. Protective occupation employees are required to pay a contribution that is equal to the percentage of earnings paid by the general employees. [SECTIONS 81 through 85.]

The Bills prohibit an employer from paying, on behalf of any employee, any of the employee's share of the actuarially required contributions under the WRS or under an employee retirement system of a 1st class city or county having a population of 500,000 or more (Milwaukee County and City Employees Retirement Systems). The Bills also prohibit any local governmental unit from establishing a defined benefit pension plan for its employees unless the plan requires the employees to pay half of all actuarially required contributions for funding plan benefits. It also prohibits the local governmental unit from paying, on behalf of an employee, any of the employee's share of the actuarially required contributions. [SECTIONS 148, 149, and 152.]

These provisions are prospective and would take effect on the first pay period following March 13, 2011, for non-represented employees, elected officials, and judges and justices, and on the expiration, termination, extension, modification, or renewal of the collective bargaining agreement, whichever occurs first, for represented employees. [SECTIONS 9115 and 9315.]

b. Actuarial Effect

Because this provision could create an increased actuarial cost due to the payment of increases in separation and death benefits (from 5.2% to 5.8%), an independent actuarial study may be requested in order to determine the extent of the cost. Because the overall effect of the Bills is to split the total cost of the actuarially required contribution, the actuarial effect of these provisions is likely limited.

c. Probable Costs

This provision would decrease employer costs for employee retirement contributions. The Department of Administration (DOA) estimates that the total cost savings to the state would be $42.8 million in fiscal year 2011 and $164.0 million in fiscal year 2012, for a total of $206.8 million for the biennium. These figures do not include savings to segregated funds or federal appropriations administered by the state.

2. Reduction in the Retirement Formula Multiplier for Elected Officials and Executive Employee Participants.

a. Description

This provision of the Bills reduces the annuity multiplier for elected officials and executive employees.

Under current law, when a WRS participant becomes eligible to receive a retirement annuity, assuming the participant is not planning to receive a money purchase annuity, the amount of the annuity is determined by multiplying the participant's final average earnings by the participant's years of creditable service by a percentage multiplier. The multiplier is currently 1.6% for general employees, 2% for elected officials and executive employees, 2% for protectives covered by Social Security, and 2.5% for protectives not covered by Social Security.

SECTION 99 of the Bills decreases the multiplier for elected officials and executive employees from 2% to 1.6%, the equivalent of the current general employee formula.

This provision is also prospective and would take effect on the first pay period following March 13, 2011, for non-represented employees; on the first day of the term of office beginning after the effective date of the Bills, for elected officials; and for judges and justices, on the first day a judge or justice assumes office following the effective date of the Bills. [SECTIONS 9115 and 9315.]

b. Actuarial Effect

Because this provision decreases benefits for certain classes of covered employees, it could create an actuarial surplus for the WRS, therefore, an independent actuarial opinion may be requested to determine the extent of the surplus.

c. Probable Costs

This provision would decrease employer contribution costs to the WRS. The estimated amount of savings is indeterminate pending an actuarial study of the provision.

3. Elimination of LTE Participation in the WRS

a. Description

This provision of the Bills removes certain LTEs from participation in the WRS.

Current law provides that state employees become participating employees in the WRS if they are expected to work at least one-third of what is determined full-time employment by ETF (600 hours for non-teachers and 440 hours for teachers and educational support employees) and have an expected duration of employment of one year or more. If the state employee becomes a participating employee in the WRS, he or she is also entitled to receive certain health insurance benefits. There is currently a group of state employees that are appointed to state civil service positions for limited terms, meaning they hold provisional positions or appointments for less than 1,044 hours per year.

The Bills prohibit state employees who have limited-term appointments from participating in the WRS and from receiving the associated health insurance benefits. [SECTIONS 73, 88, and 340.]

b. Actuarial Effect

Because this provision eliminates a class of currently covered employees, it could create an actuarial surplus for the WRS; therefore, an independent actuarial opinion may be requested to determine the extent of the surplus.

c. Probable Costs

This provision would decrease employer contribution costs to the WRS. DOA indicates that there were 1,537 state LTEs contributing to the WRS as of January 24, 2011. The UW indicated that 1,133 LTEs were contributing to the WRS as of the last (January) payroll payment. A lack of information regarding the hours and pay of the newly ineligible LTEs made any meaningful dollar estimate impractical.

POLICY RECOMMENDATION

The Joint Survey Committee on Retirement Systems finds that the provisions in Special Session Senate Bill 11 and Special Session Assembly Bill 11, as they relate to the retirement system, should be considered by the Senate and Assembly.